



CITY OF MORGAN HILL

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**GUIDE TO DEVELOPING  
A SUSTAINABLE BUDGET STRATEGY**

January 9, 2004

Submitted by:

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## **I. INTRODUCTION**

Unless there are long-term structural changes to bring the budget into balance, the current level of spending on basic city services is not sustainable. Over the past two years, General Fund reserves have been used to balance the budget. In the current year alone, it may be necessary to use \$900,000 of reserves even after aggressive efforts to reduce costs through a hiring freeze and delayed purchases.

After nearly a decade of steadily building reserves, a series of critical adverse factors have caused us to begin consuming reserves at an unsustainable rate: the lingering economic slowdown, State actions to cut local revenues, substantial cost increases, especially for employee retirement, and changes in the City's revenue base. Based on currently foreseeable trends over the next five years, the General Fund reserves will not simply fall below reasonable target levels, they will be depleted...if we do nothing.

However, doing nothing is not an option. The fiscal squeeze is real, and it must be addressed if the community's priorities for services and governance are to be met. The City Council is responsible for establishing policies that meet community needs and that will lead to balanced budgets; and it is the responsibility of City staff to implement those policies in a manner that achieves the desired results, builds confidence, and prepares for the future. Fulfilling these responsibilities requires a strategy that will lead to financial sustainability.

The purpose of this "Guide" is to set forth the basic elements of such a strategy. It discusses the current financial condition, trends for the future, principles to guide the strategy, policy options, implementation issues, and schedule. It is anticipated that the City Council will consider the Outline at its annual goal setting retreat, and provide direction on adopting a Strategy, including a recommended budget for the first year of the Strategy to be submitted by mid-May 2004.

## **II. CURRENT FINANCIAL CONDITION**

Over the past decade, Morgan Hill has enjoyed a strong financial condition while providing a “no-frills” modest level of basic service. In the early 90s, the community voted to eliminate locally imposed taxes paid by local taxpayers. In response, it was necessary to significantly reduce public safety services and to eliminate community recreation services. It has taken several years to restore police department staffing levels to that of 1992, and recreation services have been restored and enhanced with the construction of new facilities. As shown on Attachment 1, the most significant growth in City spending has been for police and recreation.

General Fund reserves have grown to a level of \$10.7 million as of June 30, 2003. The major contributing factors to this growth have been:

- higher actual revenues than forecast in each annual budget;
- steady increases in sales tax, property tax and transient occupancy tax revenue;
- lower employee retirement costs due to PERS stock portfolio performance; and
- normal vacancy factors that leave some budgeted funds unspent during the year.

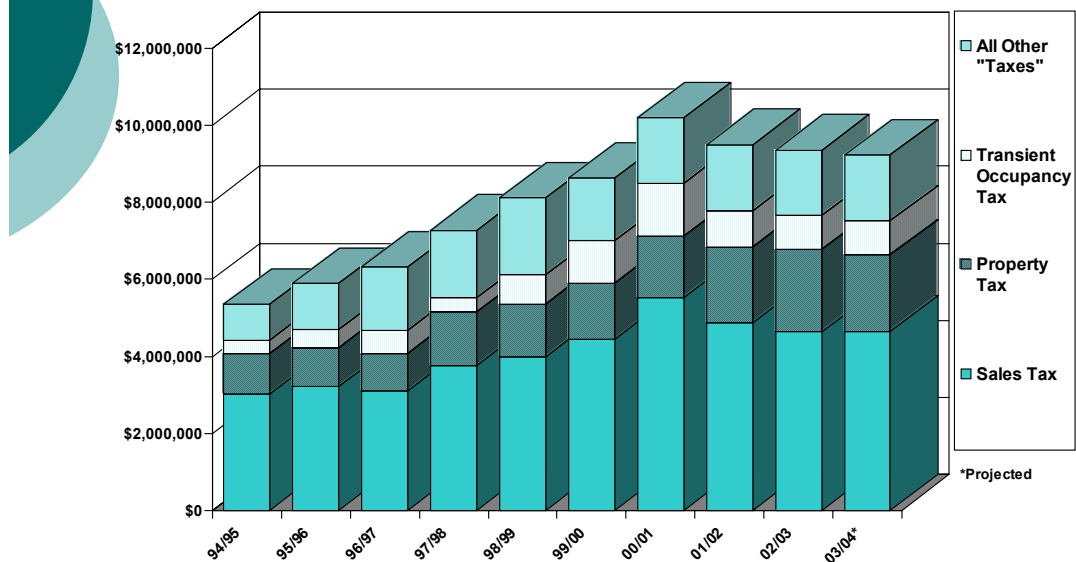
Since City operations are not financed by locally imposed taxes paid by local taxpayers, the level of spending is determined by the health of the local economy, locational decisions for consumer spending, and financial allocation decisions made by the State.

The modest level of services that results has proven adequate to meet the community’s expectations, but as the City grows there is increasing pressures for expanded service in public safety, recreation, and infrastructure maintenance. The General Fund budget has not supported any significant investment in capital projects or infrastructure. The Capital Improvement Program has been driven by the Redevelopment Agency, the Water and Sewer utilities, grants, and by development impact fees.

As shown below, the City's collection of tax revenues peaked in 2001.



## General Fund "Tax" Revenues

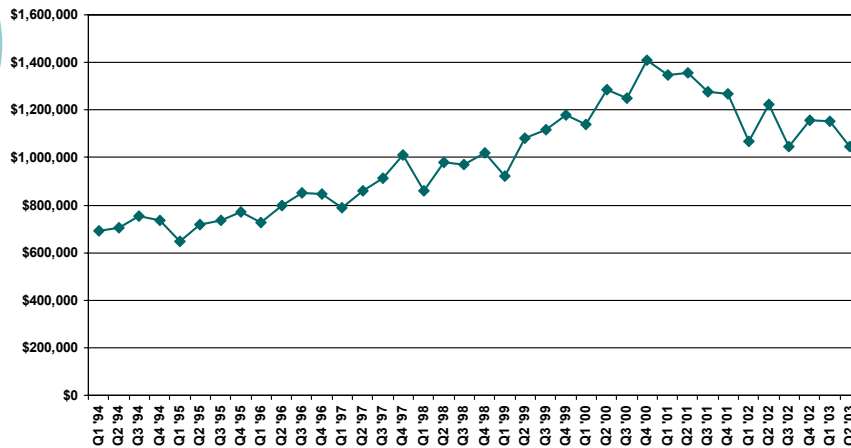


The City's share of property tax revenue is allocated according to a State formula and has increased in parallel with increased construction and steady property turnover. However, the State has often balanced its own budget by shifting property tax revenues for cities to schools.

By contrast, collections from the City's share of the 1% sales tax rate have declined significantly. Just this past May, we were forecasting that the sales tax decline would end and begin to increase slightly. Instead, our experience over the past six months is that sales tax revenue continued to decline. The same is true for most of the Silicon Valley region, although Gilroy has significantly expanded the number and range of retail stores, and has captured a greater share of regional sales tax. The chart on the next page shows that quarterly sales tax collections peaked in 2001:



## Quarterly History of Sales Tax Revenues



The Transient Occupancy Tax (TOT) is a locally imposed tax, but it is paid by visitors who use local hotels and motels. The revenue attributable to the 10% tax rate increased dramatically from FY 98 to FY 01, increasing by more than 3 ½ times to nearly \$1.4 million. This growth was attributable to the opening of hotel properties during this period, and a regional business expansion that fueled more business travel. However, just as Silicon Valley employment peaked in 2001, so did business travel and TOT receipts. The drop off from the FY 01 peak to the next year was more than 30%, and slight declines have occurred since.

The City also receives an allocation from the Motor Vehicle License Fees (MVLFF) paid to the State. The City's revenue is a function of the total depreciated value of all registered cars in California and the City's population growth relative to the overall State population growth. The City's revenue from MVLFF grew significantly from FY 98 to FY 03, but as car sales slowed statewide, the revenue growth has also slowed. If Silicon Valley is any indication of a statewide pattern, car sales continue to be sluggish.

Complicating the revenue picture for MVLFF was a decision by the State to reduce the tax rate on autos, but "backfill" cities and counties to hold them harmless financially. The promise of "backfill" was broken in the adoption of the current State budget, which deferred three months of backfill until FY 06. The adopted State Budget called for restoration of the former MVLFF tax rate to take effect in October 2003 to provide full funding for local government. The revenue loss in the current fiscal year is approximately \$400,000.

In November 2003, the new Governor reversed course and lowered the tax rate on cars, but did not provide for a funding source to continue the backfill. In the face of potential lawsuits, the Governor took emergency action to restore the backfill, but there is still no identified funding source in the State Budget. In the face of this uncertainty, it remains prudent to continue the hiring freeze and to avoid any new spending commitments.

*NOTE: The budget forecast discussed in this report assumes that the backfill will be paid, and that the deferral of \$400,000 will be paid in FY 06. Failure by the Legislature and the Governor to fulfill this commitment will require even more drastic budget measures than discussed here.*

*On Friday, January 9, 2004, the Governor proposed shifting \$1.3 billion of local property tax revenue into the ERAF account in order to reduce the State's financial obligation to schools. If this proposal is adopted, at any level, it will adversely affect our own forecast and require even more drastic budget measures than discussed here.*

### III. THE FORECAST

The Finance Director has prepared a Financial Forecast for the General Fund through FY 08. It begins with actual operating results for FY 02 and FY 03, as well as our estimate for the current FY 04. The assumptions underlying the forecast are detailed in Attachment 2. The forecast is based on both known information about the future (e.g., labor cost rates established in labor contracts) and on informed guesswork about revenue and spending trends based on current service and staffing levels.

The forecast does not include any new programs, expansion of services or staffing (except for the planned opening of the Aquatics Center in summer 2004), nor any new revenue sources.

The forecast does assume some revenue increases attributable to currently foreseeable private economic activity, and it assumes modest overall cost increases. If costs increase even faster or if the modest revenue increases are not achieved, the forecast will be gloomier. On the other hand, if we are able to control costs to less than an annual 3% increase, or revenues expand dramatically, the forecast improves.

Based on this forecast, the Sustainable Budget Strategy must take steps to reduce costs and generate more revenue.

Following is a summary of the Financial Forecast:

<b>General Fund Forecast</b>					
(Dollars in \$1,000,000's)					
	<i>FY 04</i>	<i>FY 05</i>	<i>FY 06</i>	<i>FY 07</i>	<i>FY 08</i>
Beginning Fund Balance	\$ 10.7	\$ 9.8	\$ 7.4	\$ 4.8	\$ 2.5
Add: Revenues	\$ 15.6	\$ 17.0	\$ 17.7	\$ 18.8	\$ 19.0
Less: Expenditures	\$ (16.5)	\$(19.4)	\$(20.3)	\$(21.1)	\$(21.9)
<i>Ending Fund Balance</i>	\$ 9.8	\$ 7.4	\$ 4.8	\$ 2.5	\$ (0.4)

As this summary shows, there is already an operating deficit, or budget “gap” in the current fiscal year of approximately \$900,000. Based on the assumptions of this forecast model, the gap grows to \$2.9 million in FY 08 resulting in depletion of all of the General Fund reserves in that year.

Using a Financial Forecast as the basis for the Sustainable Budget Strategy requires an ongoing monitoring and reporting system to ensure feedback during the implementation phase. The Strategy must be flexible enough to allow for “mid-course” corrections. There are dozens of variables in the model that impact the final conclusions. It is important to check those variables and their assumptions against actual results. It is also important to note that the model is “dynamic”: it changes as conditions change. For example, one of the Council’s

policies is to establish reserve levels as a percentage of revenues. Any change in revenue levels changes the target reserve levels and, therefore, the budget cutting targets.



#### IV. A SUSTAINABLE BUDGET STRATEGY

For the Budget Strategy to be sustainable, it must provide for a “balance” of revenue and expenditures, while simultaneously maintaining an appropriate level of reserves. The current reserve target is established as 40% of the annual revenue comprised of amounts for a prudent cash flow reserve (20%), emergencies (10%), and economic uncertainty (10%).

The Council’s Finance and Audit Committee will be recommending a change in this policy over the next four years in order to allow for a planned transition to a Sustainable Budget. The Committee recommends that the target level of reserves be established at 25% of the General Fund revenues and that the Budget is balanced by FY 08. That would allow for a gradual use of reserves while expenditures are reduced or revenues increased.

The two simultaneous budget targets allow for what we have called a “soft landing,” but they do not eliminate the need for structural changes in the budget. For example, allowing a greater drawdown of reserves to 25% does not eliminate the need to modify the expenditure and revenue trends. Using a greater amount of reserves would allow the major decisions to be deferred or for structural changes to be implemented over a greater period of time, but the underlying problem is an imbalance between slow growing revenue and substantial cost increases.

The recommended Sustainable Budget Strategy calls for a combination of cuts and new revenues. As discussed in greater detail below, the cuts must be ongoing reductions that permanently reduce the base level of spending. Revenue increases can come from economic activity greater than forecast or from new revenue sources.

Here is a summary of the recommended Sustainable Budget Strategy:

- FY 05      Reduce base level spending by \$800,000 (about 5% of the total).
- FY 06      Reduce base level spending by another \$400,000 (about 2% of the modified spending for that year).  
  
                 Increase revenues by \$800,000 (slightly more than 4% above the forecast revenue for that year).
- FY 07      Increase revenues by another \$400,000 (about 2% more than the modified forecast for that year).
- FY 08      Balance of revenues and expenditures achieved at approximately \$20.6 million.

Consistent with the assumptions of the base forecast, these planned actions would result in the following revised forecast:

**General Fund Forecast**  
**Recommended Sustainable Budget Strategy**

(Dollars in \$1,000,000's)

	<i>FY 04</i>	<i>FY 05</i>	<i>FY 06</i>	<i>FY 07</i>	<i>FY 08</i>
Beginning Fund					
Balance	\$ 10.7	\$ 9.8	\$ 8.3	\$ 7.8	\$ 8.1
Add: Revenues	\$ 15.6	\$ 17.1	\$ 18.6	\$ 20.2	\$ 20.6
Less:					
Expenditures	\$ (16.5)	\$(18.6)	\$(19.1)	\$(19.9)	\$(20.6)
<i>Ending Fund</i>					
<i>Balance</i>	\$ 9.8	\$ 8.3	\$ 7.8	\$ 8.1	\$ 8.1

As of June 30, 2008, the General Fund Budget would be balanced with a reserve of 40%.

See Attachment 3 for the detail of how the Recommended Strategy affects the General Fund Forecast.

## **V. OPTIONS FOR ACHIEVING A SUSTAINABLE BUDGET STRATEGY**

It seems so simple: cut spending, increase revenue.

However, a successful strategy has to have a realistic view of the challenges, and develop reasonable plans to overcome them. It also needs to recognize, in the face of strong incentives to cut costs and increase revenues, the “easy choices” have already been made.

### **A. Challenges on the Expenditure Side:**

- Morgan Hill has a small staff providing a modest level of basic services. There is no “fat” and few “frills” to cut out.
- Public safety expenditures (police and fire) represent more than 2/3 of the total General Fund Budget.
- About 1/2 the budget pays for about 106 staff positions.
- About 23% of the budget is allocated toward the fire services contract, which extends through June 30, 2005.
- In the Police Department Budget, 90% of the costs are personnel related. Yet, the staffing levels are just barely at what they were in 1992.
- Of the total labor costs in the General Fund, the Police Department represents 72% of these costs.
- The staffing levels are below authorized strength, with key positions filled by temporary employees or not at all in the case of field supervisors.
- In FY 05 and each year thereafter, the costs of public employee retirement will add the equivalent of a 27.5% “surcharge” to the cost of every police position, and a surcharge of 9.4% to all other employees.

### **B. Revenue Challenges**

Property tax growth is a function of new construction and turnover of properties that have increased in value. The “bubble” of the real estate boom may not break soon, but it is showing signs of surface tension.

Sales tax revenue is a function of prices, consumer spending patterns, and shopping opportunities within the city limits of Morgan Hill. Gilroy has established itself as the dominant retail location in South County and, in

Morgan Hill, there are few opportunities for large-scale retail developments to compete.

The City's efforts to expand retail car sales have been met with litigation by competitors and neighborhood opposition to the designation of large tracts of land for such purposes. Retailers wishing to expand, such as RV dealers, are constrained by a lack of available, affordable commercially zoned land.

The MVLF revenue is controlled by the State. Although the Governor has promised to continue the "backfill" to cities and counties despite his decision to lower the tax rate, the Legislature and the Governor still have not agreed on a means of fulfilling that promise. The Governor's proposed budget for FY 05 is due to be released on January 8, 2004.

The TOT revenue is highly dependent on business travel which itself is dependent on the strength of the regional economy. San Jose has added hundreds of new hotel rooms in recent years to capture a greater share of the business, so even if the economy rebounds to prior levels, Morgan Hill's TOT revenue may not rebound to the same degree.

Only about 16% of the Budget is financed by user charges and fees. The new community facilities under development are expected to break even by charging user fees. The Aquatics Center will only operate as many months per year as can be financed by users during the peak months. The new Indoor Recreation Center has revenue generating features designed in, but the actual results will depend on which operating model is chosen (City or combination of City and YMCA.)

Under Proposition 218 and other statutes, taxes, assessments, and fees are governed by strict procedural rules and limits including, in the case of taxes, a vote of the people.

About 12% of the General Fund Budget is financed by other funds which contribute toward general administration and overhead costs.

### **C. Labor Costs**

The City has taken steps to provide competitive salaries and benefits in order to attract and retain the quality employees so essential to service delivery with such a small staff. For most of the organization, salary levels are established as a result of collective bargaining. All three unions have agreed to a compensation package that defers any salary increase for the current year, with scheduled increases to take effect in the next fiscal year.

Nonetheless, labor costs are increasing dramatically, primarily due to increases in the amount the City must pay to fund employee retirement

benefits. For many years, the Public Employees Retirement System (PERS) earned substantial returns on its investment portfolio and, as a result, the City was “superfunded,” meaning that no employer annual contributions were needed to fund the benefit levels negotiated. That changed this year due to recent investment losses by PERS and to negotiated benefit increases for police services.

Although it would be possible to declare a “fiscal emergency” and override some of the provisions of negotiated labor contracts, we prefer to first seek labor cooperation in controlling current and future costs. Areas for discussion could include:

- overall salary adjustments;
- cost sharing for retirement and health care benefits;
- accrual rates for vacation and sick leave, and “cash out” provisions; and
- changes in work schedules including shift schedules for police personnel and mandatory furloughs for others.

#### **D. Other Costs**

Labor costs represent 52% of the General Fund Budget; the Fire Services Contract 23%. The remaining controllable costs include:

- fuel and energy;
- telephone and telecommunications;
- information systems maintenance and management;
- vehicle replacement and repair;
- building maintenance;
- insurance and claims;
- contract services;
- office supplies; and
- employee training.

In each of these areas, there have been opportunities to save and there are more available. However, if the goal is to identify long-range structural changes in the budget, it is important to focus on service levels rather than on line item expenses. Each of these line item expenses expands or contracts with changes in the services to be provided.

It remains critical that even at a smaller level of services or staff, we continue to invest in preserving assets whether it is vehicle repair, or preventive maintenance on facilities, or upgrades to the Information

Systems Network. Investment in training and organizational development is especially important in times of change that require creative solutions.

Unfortunately, as buildings and equipment age, and systems become obsolete, the requirements to invest even more in some of these areas increase. For example, the City's finance software system is outdated, is costly to maintain, and labor intensive to use. But it is a high cost item to replace. So far we have held off on making the outlay to purchase a new system, and continuing to do so would help balance the budget, but a major need to improve service at lower operating costs will continue. This is just one example of the challenge of reducing spending.

One way to reduce spending is to find less expensive ways of providing services including contracting out to others who can provide a service at less cost. The contractor could be a private company or another government agency. Contracting out decisions in some cases may require working with the affected labor union, and have various lead times to start up depending on the complexity of the functions to be performed. Procurement of such services would be governed by regulations seeking to ensure a competitive process. Candidates for consideration include: large scale mowing of parks and landscaped areas, information systems maintenance, operation and maintenance of new community recreation facilities, and others. The Fire Service Contract is the prime example of this approach and an extension is currently being negotiated.

One approach to reducing administrative costs is to reorganize departments and functions so as to provide support to direct services with fewer people. It is recognized that even a smaller organization needs administrative leadership, risk management, and support for Council policy making, but such activities may not be as high a priority as others determined by the Council and these activities could be cut back.

Budget reductions are available, but they would have impacts on services and staff. With fewer resources to be deployed, it is important to deploy them to the highest priority services. Council could be most helpful by identifying the areas of top priority to preserve. Attachment 4 provides a first cut by staff at identifying "critical" services.

#### **E. Use of Other Reserves**

In Morgan Hill, there are a variety of other accounting funds that support or are related to the General Fund. Internal Services Funds have been established to account for services or functions that are citywide. This allows the contingent liabilities for future outlays to be funded as the liabilities are incurred rather than making big charges to departments in the future. Examples include: the Vehicle Replacement Fund, the Insurance Fund, and the Information Technology Fund. Operating departments in the General Fund pay their proportionate share of the costs

of those activities. Some of the Internal Services Funds have balances that would allow for a temporary reduction in contributions from operating departments, with the effect of cutting the General Fund Budget...but only temporarily. The contingent liabilities remain and would have to be paid in the future.

Other related funds include: the Community Development Fund, the Park Maintenance Fund, and the Street Maintenance Funds. Each of these funds support activities, which are typically “general fund” but have been established to provide accountability for designated revenue sources.

- Community Development Fund. The activities that support private land development and building are paid for by fees. This fund was established to account for those fees separately and to recognize that the development process includes many phases that take time. Fees collected this month may support activities that extend for many more months, and into the next fiscal year. Maintaining a separate fund provides an opportunity to better manage those activities. However, it also means the Fund has a balance that earns interest that could be included in the General Fund. In recent years, the Council has recognized that fees need to be increased to meet actual costs. To the extent that these fees are not adjusted, the fund balance is consumed and unavailable to address General Fund Budget problems.
- Park Maintenance Fund. This fund was established to account for the collection of voluntary payments by Measure P applicants. A transfer of \$1 million from the General Fund initially capitalized it. Additional Measure P points could be obtained by paying “double park fees,” the second half of which is discretionary money that is deposited into this fund. Last year, the Council reduced the payment to an amount not to exceed \$3,000 per unit. The Fund currently has a balance of about \$2.5 million and receives about \$250,000 in revenue each year as long as new residential development occurs. For several years, the Park Maintenance Fund has been considered a “trust fund” whose income was to support ongoing park maintenance activities. This year \$200,000 was transferred to the General Fund. More is available to be transferred.

- Street Maintenance Fund. Until FY 04, the General Fund transferred about \$300,000 annually to help pay for street maintenance activities. Without those resources, street maintenance has been cut back and will be limited to only what Gas Tax revenue will support.



## **VI. PRINCIPLES TO GUIDE THE SUSTAINABLE BUDGET STRATEGY**

It is suggested the Council adopt the following principles to guide the Sustainable Budget Strategy:

1. Critical services should be maintained to the greatest extent possible.
2. Resources should be allocated to the highest priority services.
3. No city services or functions should be exempt from evaluation.
4. “Across the Board” approaches shall be avoided because they are not aligned with the Council’s and community’s priorities.
5. Reductions in service should position the City to take advantage of economic recovery.
6. Budget cuts should be ongoing and not simply “one time only.”
7. Council should commit to support employees during the transition, and assist those who may be adversely impacted.
8. Employees and their recognized bargaining units should be actively involved in developing options and implementing the transition.
9. The City should continue to invest in building organizational capacity by supporting training and employee development.
10. Community wide tax resources should be allocated first to support community wide services.
11. Special services designed for only a few should be paid for by user charges and fees.
12. Administrative and operational efficiencies should be maximized before pursuing new tax revenue.
13. Reserves and one time revenues should be used first to invest in capital outlay items that could reduce long range operating costs and, thereafter, fund transition expenses.
14. New services should not be added nor existing services expanded unless they are highly valued by the community and there is a willingness to pay for them.
15. There should be regular monitoring of financial performance and opportunities to make mid-course corrections as warranted.
16. City policies that may inhibit economic development, especially new retail development, should be reviewed regularly and modified.

## **VII. SCHEDULE**

January 2004	Presentation of the Outline for a Sustainable Budget Strategy
February 2004	Council Policy Direction
March – May 2004	City Staff Preparation of FY 05 Budget and Recommended Five Year Budget Strategy
June 2004	Council Adopts FY 05 Budget and Five Year Budget Strategy
August 2004	Council Reviews Preliminary “Actual” Results for FY 04 and Adjusts Five Year Budget Strategy as Appropriate
January 2005	Council Reviews “Mid-Year” Results; Annual Goal Setting Retreat; Adjustments to Five Year Budget Strategy, as Appropriate
June 2005	Council Adopts FY 06 Budget Including Proposed Revenue Measures
November 2006	Election for Any Revenue Measures Requiring Voter Approval

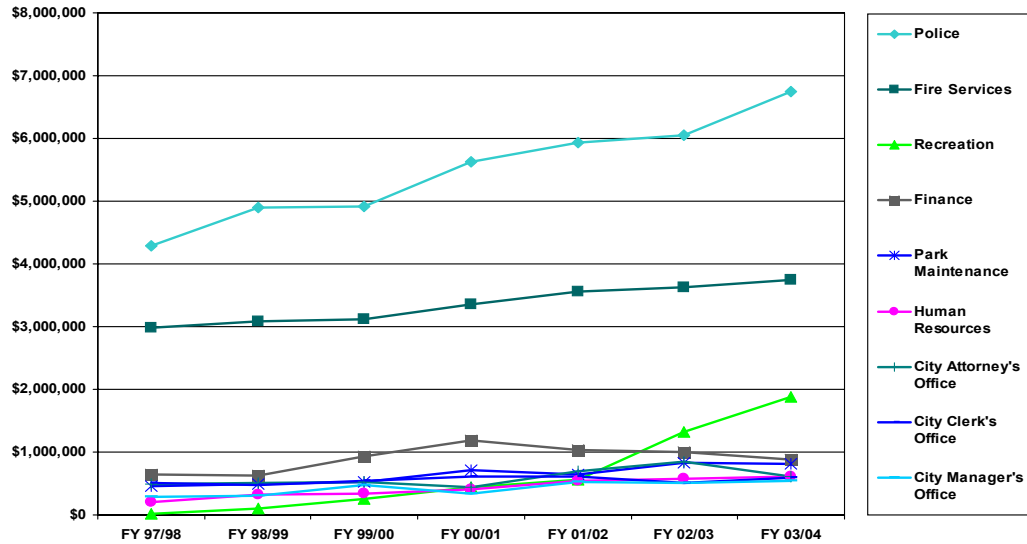
## VIII. LIST OF ATTACHMENTS

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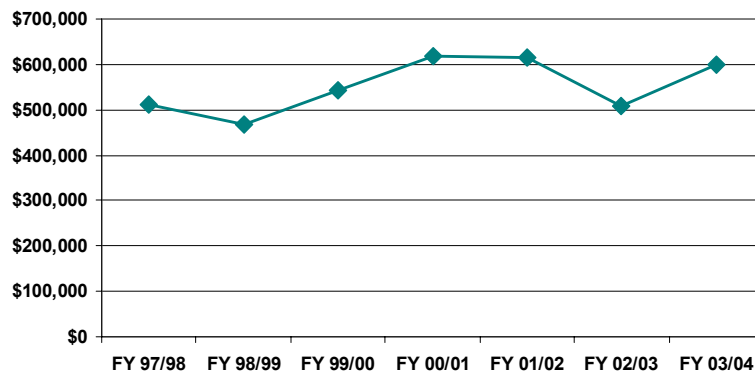
## Attachment 1



# Growth in GF Expenditures

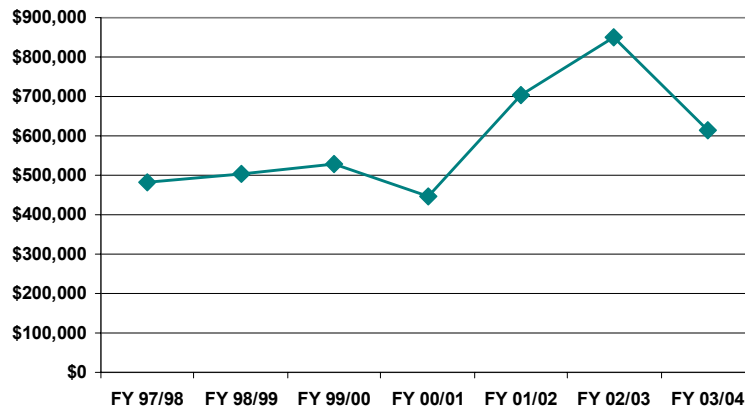


## General Fund Expenditure Growth City Clerk's Office

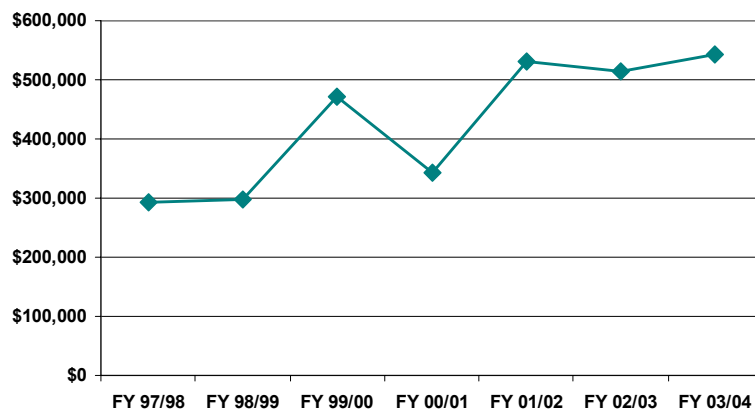




## General Fund Expenditure Growth City Attorney's Office

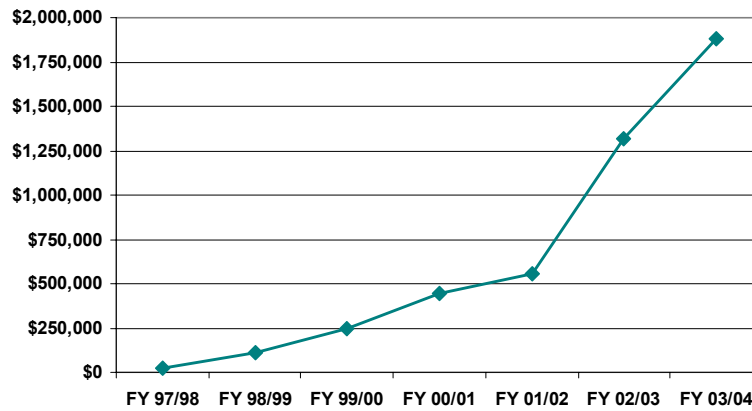


## General Fund Expenditure Growth City Manager's Office

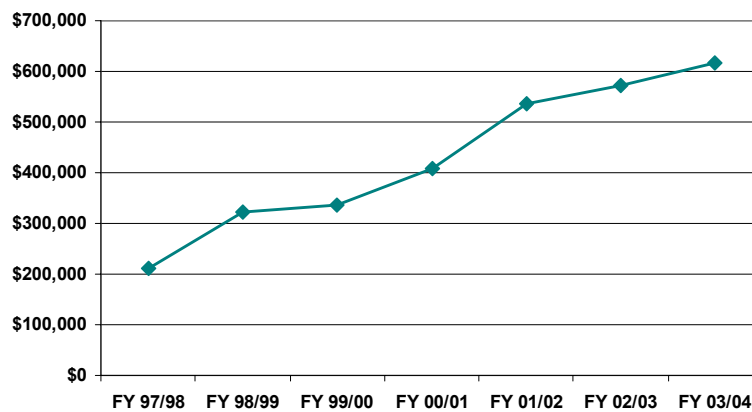




## General Fund Expenditure Growth Recreation

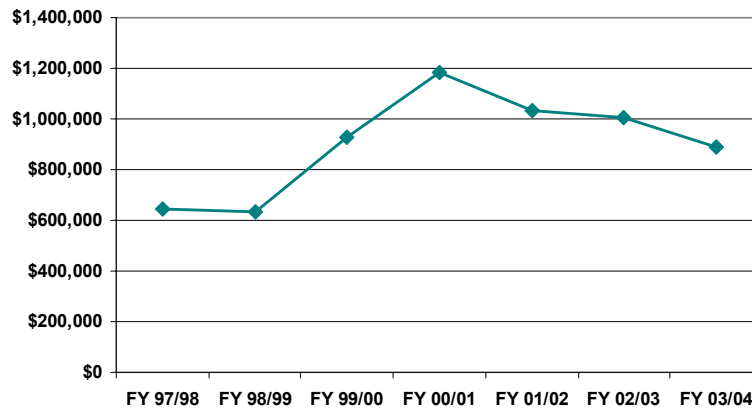


## General Fund Expenditure Growth Human Resources

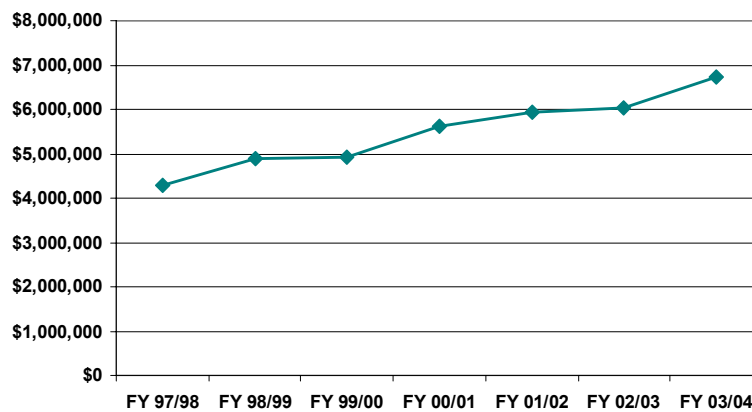




## General Fund Expenditure Growth Finance

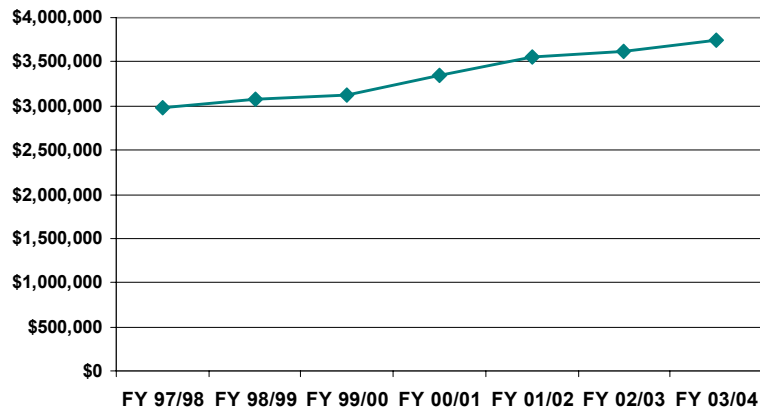


## General Fund Expenditure Growth Police

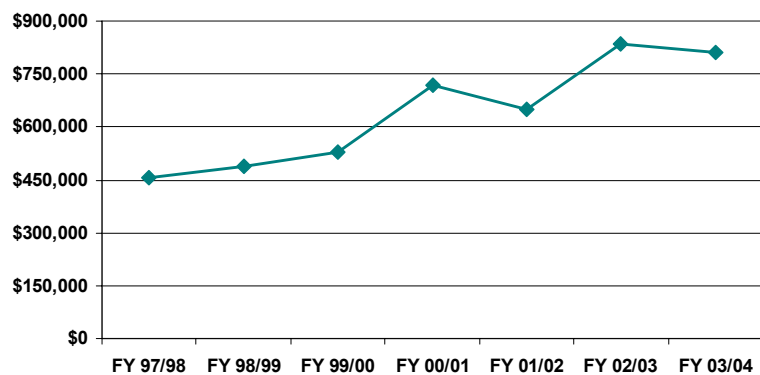




## General Fund Expenditure Growth Fire Services



## General Fund Expenditure Growth Park Maintenance





**ATTACHMENT 2**  
**GENERAL FUND BALANCE PROJECTIONS (WITH 3 MONTH VLF LOSS)**  
**2001/02 through 2007/08**

**12/19/03**

This schedule shows that, based upon a status quo budget that does not take the costs or revenues of future projects into consideration, total Fund Balance for the General Fund is projected to drop from \$10.3 million at 6/30/01 to negative (\$0.4 million) at 6/30/08. The projections generally assume, after 2003/04, a 3% increase in revenues and in expenditures. However, property taxes and sales taxes are projected to increase an average of 5% a year beginning in 2004/05. Transient occupancy taxes are projected to increase by 5% in 2004/05, followed by 8% annual increases as the economy rebounds somewhat and hotels realize higher occupancy rates. This schedule reflects a 3 month loss for the vehicle in-lieu fee State backfill for Fiscal Year 2003/04. The analysis does not assume any new funding sources, but does reflect the addition of certain new expected sales tax producers, and does not factor in new employee positions or funding of currently unfunded positions after 2002/03 except that 4 new Aquatics related positions are reflected beginning in 2003/04. Potential future costs for operating a new fire station, Community Indoor Recreation Center operations, City Hall expansion, and expanded parks maintenance are **not** included in costs. If local revenue sources are insufficient, then new sources may need to be considered and/or expenditure levels may need to be reduced.

	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
<i>Beginning Balance</i>	10,289,784	10,870,767	10,747,741	9,815,667	7,476,368	4,900,135	2,529,498
Revenues & Trnfrs In	15,434,532	15,802,766	15,556,778	17,049,132	17,746,023	18,765,827	18,997,829
Exps/Trnsfers Out(7)	<u>(14,853,549)</u>	<u>(15,925,792)</u>	<u>(16,488,852)</u>	<u>(19,388,431)</u>	<u>(20,322,256)</u>	<u>(21,136,464)</u>	<u>(21,921,219)</u>
<i>Ending Balance</i>	10,870,767	10,747,741	9,815,667	7,476,368	4,900,135	2,529,498	(393,892)
Less: Designations(4)	<u>3,382,000</u>	<u>7,350,974</u>	<u>7,111,917</u>	<u>6,993,590</u>	<u>6,771,865</u>	<u>7,179,290</u>	<u>7,271,580</u>

**GENERAL FUND BALANCE PROJECTIONS (WITH 3 MONTH VLF LOSS)**  
**2001/02 through 2007/08**

**12/19/03**

<b>REVENUE DETAIL</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
<b>TAXES:</b>							
Property Tax	2,167,507	2,315,105	2,400,862	2,520,905	2,646,950	2,779,298	2,918,262
Sales Tax-Base Line	4,870,294	4,636,927	4,335,000	4,551,750	4,779,338	5,018,304	5,269,220
Sales Tax-New Bus.	-	-		244,000	308,000	315,000	320,000
TOT Tax	931,716	882,194	890,000	934,500	1,009,260	1,090,001	1,177,201
Franchise Fees	954,641	966,134	961,180	990,015	1,019,716	1,050,307	1,081,817
Pub Sfty Sales Tax	289,705	264,603	240,000	252,000	264,600	277,830	291,722
Property Trnsfr Tax	267,399	288,411	297,063	305,975	315,154	324,609	334,347
<b>TOTAL TAXES</b>	<b>9,481,262</b>	<b>9,353,374</b>	<b>9,124,105</b>	<b>9,799,145</b>	<b>10,343,018</b>	<b>10,855,349</b>	<b>11,392,568</b>
<b>LICENSES/PERMITS</b>	<b>205,595</b>	<b>196,209</b>	<b>202,600</b>	<b>208,678</b>	<b>214,938</b>	<b>221,386</b>	<b>228,028</b>
<b>REVENUE FROM OTHER AGENCIES:</b>							
Motor Vehicle Fee(8)	1,904,697	2,035,157	1,700,000	2,163,000	2,227,890	2,694,727	2,369,749
Other	254,706	163,211	271,900	280,057	288,459	297,112	306,026
<b>TOTAL REV-AGNS</b>	<b>2,159,403</b>	<b>2,198,368</b>	<b>1,971,900</b>	<b>2,443,057</b>	<b>2,516,349</b>	<b>2,991,839</b>	<b>2,675,774</b>
<b>FINES/PENALTIES</b>	<b>108,962</b>	<b>78,552</b>	<b>90,700</b>	<b>93,421</b>	<b>96,224</b>	<b>99,110</b>	<b>102,084</b>
<b>CHARGES - CURRENT SERVICES:</b>							
Recrtn/CCC Classes	40,718	123,951	264,951	272,900	281,087	289,519	298,205
Aquatics Revenue(2)	-	-	73,833	733,500	763,750	794,000	817,820
Gen Admin Overhd	1,575,484	1,855,934	2,007,978	2,068,217	2,130,264	2,194,172	2,259,997
Other Charges	313,400	241,361	243,975	251,294	258,833	266,598	274,596
<b>TOTAL CUR SRVS</b>	<b>1,929,602</b>	<b>2,221,246</b>	<b>2,590,737</b>	<b>3,325,911</b>	<b>3,433,933</b>	<b>3,544,289</b>	<b>3,650,618</b>
Interest earnings	586,674	402,677	300,000	334,000	265,500	155,250	36,000
CCC/Gavilan Rent	-	69,568	367,550	378,577	389,934	401,632	413,681
Other Rentals	41,412	105,200	108,000	126,261	144,093	152,926	152,959
Other	53,350	252,240	24,200	24,926	25,674	26,444	27,237
<b>TOTAL OTH REVS</b>	<b>681,436</b>	<b>829,685</b>	<b>799,750</b>	<b>863,763</b>	<b>825,200</b>	<b>736,251</b>	<b>629,877</b>
<b>TRANSFERS IN</b>							
Park Maintenance	100,000	100,000	200,000	100,000	100,000	100,000	100,000
Sewer/Water/Other	263,235	35,000	38,986	40,156	41,360	42,601	43,879
Public Safety	505,037	270,000	273,000	175,000	175,000	175,000	175,000
Community Rec Ctrs		520,332	265,000	-	-	-	-
<b>TOTAL TRFRS IN</b>	<b>868,272</b>	<b>925,332</b>	<b>776,986</b>	<b>315,156</b>	<b>316,360</b>	<b>317,601</b>	<b>318,879</b>
<b>TOTAL REVS/XFRS</b>	<b>15,434,532</b>	<b>15,802,766</b>	<b>15,556,778</b>	<b>17,049,132</b>	<b>17,746,023</b>	<b>18,765,827</b>	<b>18,997,829</b>

**ATTACHMENT 3**  
**GENERAL FUND BALANCE PROJECTIONS (WITH 3 MONTH VLF LOSS) & PLAN CHANGES**  
**2001/02 through 2007/08**

1/5/04

This schedule shows that, based upon a status quo budget that does not take the costs or revenues of future projects into consideration, but does take into account certain revenue and expenditure plan changes, total Fund Balance for the General Fund is projected to drop from \$10.3 million at 6/30/01 to \$8.1 million at 6/30/08. In addition, revenues and expenditures are projected be in alignment in 2007/08. The projections generally assume, after 2003/04, a 3% increase in revenues and in expenditures. However, property taxes and sales taxes are projected to increase an average of 5% a year beginning in 2004/05. Transient occupancy taxes are projected to increase by 5% in 2004/05, followed by 8% annual increases as the economy rebounds somewhat and hotels realize higher occupancy rates. This schedule reflects a 3 month loss for the vehicle in-lieu fee State backfill for Fiscal Year 2003/04. The analysis does assume an unidentified new funding source, as highlighted below, and does reflect the addition of certain new expected sales tax producers. The schedule does not factor in new employee positions or funding of currently unfunded positions after 2002/03 except that 4 new Aquatics related positions are reflected beginning in 2003/04. Potential future costs for operating a new fire station, Community Indoor Recreation Center operations, City Hall expansion, and expanded parks maintenance are *not* included in costs. The schedule also assumes unidentified expenditure reductions, or savings, as highlighted below.

	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
<i>Beginning Balance</i>	10,289,784	10,870,767	10,747,741	9,815,667	8,304,368	7,848,885	8,167,718
Revenues & Trnfrs In	15,434,532	15,802,766	15,556,778	17,077,132	18,642,773	20,194,577	20,589,299
Exps/Trnsfers Out(7)	(14,853,549)	(15,925,792)	(16,488,852)	(18,588,431)	(19,098,256)	(19,875,744)	(20,622,677)
<i>Ending Balance</i>	10,870,767	10,747,741	9,815,667	8,304,368	7,848,885	8,167,718	8,134,339
Less:Designations(4)	3,382,000	7,350,974	7,111,917	7,004,790	7,130,565	7,750,790	7,908,168
<b><i>Undesg Fd Balance</i></b>	<b><u>7,488,767</u></b>	<b><u>3,396,767</u></b>	<b><u>2,703,750</u></b>	<b><u>1,299,578</u></b>	<b><u>718,320</u></b>	<b><u>416,928</u></b>	<b><u>226,171</u></b>

**GENERAL FUND BALANCE PROJECTIONS (WITH 3 MONTH VLF LOSS) & PLAN CHANGES**  
**2001/02 through 2007/08**

1/5/04

<b>REVENUE DETAIL</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
<b>TAXES:</b>							
Property Tax	2,167,507	2,315,105	2,400,862	2,520,905	2,646,950	2,779,298	2,918,262
Sales Tax-Base Line	4,870,294	4,636,927	4,335,000	4,551,750	4,779,338	5,018,304	5,269,220
Sales Tax-New Bus.	-	-		244,000	308,000	315,000	320,000
TOT Tax	931,716	882,194	890,000	934,500	1,009,260	1,090,001	1,177,201
Franchise Fees	954,641	966,134	961,180	990,015	1,019,716	1,050,307	1,081,817
Pub Sfty Sales Tax	289,705	264,603	240,000	252,000	264,600	277,830	291,722
Property Trnsfr Tax	267,399	288,411	297,063	305,975	315,154	324,609	334,347
<b>TOTAL TAXES</b>	<b>9,481,262</b>	<b>9,353,374</b>	<b>9,124,105</b>	<b>9,799,145</b>	<b>10,343,018</b>	<b>10,855,349</b>	<b>11,392,568</b>
<b>LICENSES/PERMITS</b>	<b>205,595</b>	<b>196,209</b>	<b>202,600</b>	<b>208,678</b>	<b>214,938</b>	<b>221,386</b>	<b>228,028</b>
<b>REVENUE FROM OTHER AGENCIES:</b>							
Motor Vehicle Fee(8)	1,904,697	2,035,157	1,700,000	2,163,000	2,227,890	2,694,727	2,369,749
Other	254,706	163,211	271,900	280,057	288,459	297,112	306,026
<b>TOTAL REV-AGNS</b>	<b>2,159,403</b>	<b>2,198,368</b>	<b>1,971,900</b>	<b>2,443,057</b>	<b>2,516,349</b>	<b>2,991,839</b>	<b>2,675,774</b>
<b>FINES/PENALTIES</b>	<b>108,962</b>	<b>78,552</b>	<b>90,700</b>	<b>93,421</b>	<b>96,224</b>	<b>99,110</b>	<b>102,084</b>
<b>CHARGES - CURRENT SERVICES:</b>							
Recrtn/CCC Classes	40,718	123,951	264,951	272,900	281,087	289,519	298,205
Aquatics Revenue(2)	-	-	73,833	733,500	763,750	794,000	817,820
Gen Admin Overhd	1,575,484	1,855,934	2,007,978	2,068,217	2,130,264	2,194,172	2,259,997
Other Charges	313,400	241,361	243,975	251,294	258,833	266,598	274,596
<b>TOTAL CUR SRVS</b>	<b>1,929,602</b>	<b>2,221,246</b>	<b>2,590,737</b>	<b>3,325,911</b>	<b>3,433,933</b>	<b>3,544,289</b>	<b>3,650,618</b>
Interest earnings	586,674	402,677	300,000	362,000	362,250	360,000	366,750
CCC/Gavilan Rent	-	69,568	367,550	378,577	389,934	401,632	413,681
Other Rentals	41,412	105,200	108,000	126,261	144,093	152,926	152,959
<b>New Revenue-Year '06</b>					<b>800,000</b>	<b>824,000</b>	<b>848,720</b>
<b>New Revenue-Year '07</b>						<b>400,000</b>	<b>412,000</b>
Other	53,350	252,240	24,200	24,926	25,674	26,444	27,237
<b>TOTAL OTH REVS</b>	<b>681,436</b>	<b>829,685</b>	<b>799,750</b>	<b>891,763</b>	<b>1,721,950</b>	<b>2,165,001</b>	<b>2,221,347</b>
<b>TRANSFERS IN</b>							
Park Maintenance	100,000	100,000	200,000	100,000	100,000	100,000	100,000
Sewer/Water/Other	263,235	35,000	38,986	40,156	41,360	42,601	43,879
Public Safety	505,037	270,000	273,000	175,000	175,000	175,000	175,000
Community Rec Ctrs		520,332	265,000	-	-	-	-
<b>TOTAL TRFRS IN</b>	<b>868,272</b>	<b>925,332</b>	<b>776,986</b>	<b>315,156</b>	<b>316,360</b>	<b>317,601</b>	<b>318,879</b>
<b>TOTAL REVS/XFRS</b>	<b>15,434,532</b>	<b>15,802,766</b>	<b>15,556,778</b>	<b>17,077,132</b>	<b>18,642,773</b>	<b>20,194,577</b>	<b>20,589,299</b>

## GENERAL FUND BALANCE PROJECTIONS (WITH 3 MONTH VLF LOSS) &amp; PLAN CHANGES

1/5/04

2001/02 through 2007/08

		(5)	(5)				
EXPENDITURES:	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
City Council	205,837	220,627	225,942	232,835	241,568	248,815	256,280
City Clerk	412,451	288,986	374,111	384,770	401,242	413,279	425,677
City Mngr/Cable TV	530,387	514,855	544,724	559,741	583,834	601,349	619,389
Recreation	555,522	522,839	463,468	469,364	486,439	501,032	516,063
Community & Cul Ctr.	-	794,220	1,193,990	1,190,666	1,236,698	1,273,798	1,312,012
Aquatics(2)	-	-	273,890	733,500	763,750	794,000	817,820
Police	5,946,049	6,044,109	6,751,400	7,060,592	7,383,372	7,647,821	7,874,551
Fire	3,559,610	3,623,938	3,745,220	4,645,000	4,784,350	4,927,881	5,075,717
City Attorney	702,577	851,468	615,917	634,758	659,356	679,137	699,511
Medical Services	192,526	115,000	5,000	-	-	-	-
Finance	1,035,844	1,005,030	891,221	916,748	957,481	986,205	1,015,791
Human Resources	537,155	572,828	617,129	636,213	664,010	683,930	704,448
Park Maintenance	649,472	834,892	822,840	869,620	903,942	930,028	956,898
Police Debt Serv(1)	-	-	-	200,000	200,000	200,000	200,000
PERS Rates(3)	-	-	-	757,444	947,034	1,124,949	1,305,217
Health Costs(6)	-	-	-	136,214	152,560	170,867	191,371
Workers Comp Costs(7)	-	-	50,000	50,000	50,000	50,000	50,000
<b>New Savings-Year '05</b>				<b>(800,000)</b>	<b>(824,000)</b>	<b>(848,720)</b>	<b>(874,182)</b>
<b>New Savings-Year '06</b>					<b>(400,000)</b>	<b>(412,000)</b>	<b>(424,360)</b>
Less: 1% salary savings			(86,000)	(89,034)	(93,379)	(96,629)	(99,527)
<b>Total Expenditures</b>	<b>14,327,430</b>	<b>15,388,792</b>	<b>16,488,852</b>	<b>18,588,431</b>	<b>19,098,256</b>	<b>19,875,744</b>	<b>20,622,677</b>

**Transfers Out**

Street Maintenance	270,000	377,000	-	-	-	-	-
Building Maint/Other	56,119	-	-	-	-	-	-
General Plan Update	-	60,000	-	-	-	-	-
Community Center	200,000	100,000	-	-	-	-	-
<b>Total Transfers Out</b>	<b>526,119</b>	<b>537,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**TOTAL EXPS/TRFS**    **14,853,549**    **15,925,792**    **16,488,852**    **18,588,431**    **19,098,256**    **19,875,744**    **20,622,677**

(1) Cost of acquiring/building a new police station reflect the portion of debt service to be paid by the General Fund and reflect the timing of construction shown in the proposed Capital Improvement Plan

(2) Annual revenue for Aquatics Center for fiscal years beginning 2004/05 were based upon a Sports Management Group (SMG) study as follows:

2004/05: SMG low revenue estimates

2005/06: Average of 2004/05 and 2006/07 SMG revenue estimates

2006/07: Average of 2004/05 through 2006/07 SMG revenue estimates

Annual operating costs are assumed to equal annual revenues beginning in 2004/05

(3) PERS Rate changes are in addition to annual \$297,618 PERS increase beginning in fiscal year 2003/04

(4) Beginning in 2002/03, designations include a general reserve of 20%, an emergencies reserve of 10%, and an economic uncertainty reserve of 10%, all based upon estimated revenues (not including transfers in.) In addition, the City Council has directed that \$200,000 of these reserves be used for the Aquatics Center start-up in 2003/04 and has designated an additional \$1.4 million for the Fire Master Plan Implementation. In this schedule, the Fire designation is shown as being spent as follows: \$900,000 in 2004/05 and the remaining \$500,000 in 2005/06, in conjunction with a proposed renegotiated fire services contract with Santa Clara County.

(5) Expenditures for 2002/03 include \$222,404 for prior year carry-over encumbrances and for prior year projects rebudgeted in 2002/03. Projected 2003/04 expenditures include \$79,660 in prior year carry-over encumbrances.

(6) Health costs separately shown represent projected costs in excess of the assumed 3% inflation rate.

(7) Workers Comp separately shown represent projected costs in excess of the assumed 3% inflation rate.

(8) A one-time loss in Motor Vehicle In-Lieu Fees, amounting to \$400,000 shifted to the State, is reflected in 2003/04 and is offset by a State repayment of \$400,000 to the City in 2006/07, as required by AB 1768.

**Classification of City Services - Attachment 4**  
December 2003

Each department or division has developed a list of “critical” and “less critical” services. Each department or division used their own criteria for determining “critical” services, however, in general, “critical” services include those which are legally required or established by contractual obligations, services for which fees are paid, and services for which staff believes there are strong customer expectations.

“Less critical” services include external and internal services that may be important, but are not required to be provided.

<b>BUILDING ASSISTANCE AND HOUSING SERVICES</b>	
<p><i>Note:</i> For BAHS, the following criteria were used to categorize programs/projects/services as critical:</p> <ul style="list-style-type: none"> <li>- Legally required/contractual obligation</li> <li>- Maintains housing stock</li> <li>- Funding already committed/spent</li> <li>- Leverages funds</li> <li>- Community expectations</li> <li>- Efficient/effective services</li> <li>- Assists in revenue enhancement</li> </ul>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Economic Development Ombudsman Services (site selection, marketing/general info, contact with/liaison to business, assistance w/development processing, processing/negotiating assistance packages)	Liaison to Sister City Committee
Liaison to Morgan Hill Downtown Association	Staff to Mobile Home Rent Commission Historic Preservation (Acton Farmhouse & Museum)
Liaison to Chamber’s Economic Development Committee (Retention Sub-Committee, Business Attraction Sub-Committee)	Neighborhood Clean-up & Paint Grant programs
Auto Dealer Strategy	Housing Rehab loan program
Administer Below Market Rate ownership and rental programs, including sale of new homes, resale, refinancing	Façade grants
CDBG programs	Small Business Fee Deferral program
California Redevelopment Law & State HCD Reporting & Monitoring	Audits of BMR program and Economic Development programs
Housing loan monitoring and servicing	Sewer/Traffic Fee Financing programs
Vacancy Survey	Maintenance of housing program and economic development marketing materials

Property management	Water tower
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Senior Repair and Mobile Home Repair grants	Assisting other departments with studies
Downtown Request for Concepts Process (evaluating 23 proposals)	Implementation of Affordable Housing Strategy (develop new Homebuyer Assistance Program, work with Habitat for Humanity, develop Senior Housing, develop new construction for both rental and ownership units)
Manage relocation process for public works projects	Implementation of Economic Development Strategy (Walnut Grove PUD, industrial cluster analysis, retail analysis)
Reuse study for Albertsons Center	Website management of BAHS programs
Affordable Housing Projects (Murphy Ranch II apartments, Jasmine Square, Royal Court apartments and town homes, Watsonville Rd Teacher housing)	Implementation of Downtown Plan (develop work plan, parking management plan, public improvement study)
Management of Public Facility Projects: Aquatics Center, Library, Police Station Request for Proposals, County Courthouse, New Police Department Tenant Improvements and purchase of the building, Granary/Day Workers Center, Train Depot Lease and loan	Management of Public Facility Projects: Fire station, El Toro/Friendly Inn, Indoor Recreation Center
<b>CITY ATTORNEY'S OFFICE</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Litigation Response	Pro-active litigation (other than to recover money owed)
Attendance at City Council meetings	Code enforcement (other than to address immediate health and safety issues)
Contract negotiation, review and execution	Attendance and Participation in Management group activities (other than for legal issues)
Legal opinions (and research on)	Individual meetings with council members
Review and oversight of claims for risk management/settlement purposes	Meetings with Department Heads
Research and opinion issuance on currently filed claims/litigation matters	Pro-active review and revision of code, forms and policies
	Attendance at commission and committee meetings
	Research and opinion issuance on potential claim/litigation matters
	Training for council, commissions and staff

	Newsletter updates to council/staff
<b>CITY CLERK'S OFFICE</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
FPPC Filing Officer for Forms 700, Statement of Economic Interests, campaign/committee disclosure forms.	Provide Council meals and refreshments; Chambers and meeting room set up and clean up.
Oversee Municipal Elections, including receiving petitions relating to initiatives, referendums, or recalls	Compile Council/RDA agenda and staff reports for posting on website, and post
Coordinate development of and post Council/RDA and Financing Authority meeting agendas; post and publish public hearings; verify posting of other boards, commission, and committee agendas	Format Resolutions and Ordinances submitted by departments to bring them into consistent format.
Develop and maintain the City-wide Records Management Program, including the "Record Retention Schedule." Publish Ordinance summaries in the newspaper.	Check Mayor's voice mail and e-mail messages; maintain calendar. Prepare correspondence from, and respond to correspondence to, Councilmembers.
Accept/process subpoenas, summons, lawsuits, and claims against the City	Attest student attendance at Council meetings
Recruit to fill vacancies on boards, commissions, and committees; post annually; update rosters and provide information to new appointees.	Register and coordinate transportation to community events such as Holiday Parade and Fourth of July Parade.
Process records requests per the Public Records Act	Conduct City Tours for service groups
Answer citizen inquiries made by mail, telephone, e-mail or in person; greet and direct customers to appropriate City staff member	Accept/decline invitations, route/file/recycle informational literature for Mayor and Council Members
Receive/open sealed bids and record results	Accept and process passports ( <u>Note</u> : elimination of this activity would result in loss of revenue to the City.)
Assist Mayor and Council, as needed	Keep track of all outbound requests to City Manager and other department directors, request responses in timely manner
Prepare and monitor completion of Mandated Cost forms for all agendas processed by City Clerk's office. Annually, gather and compile the Mandated Cost forms for all publicly noticed agendas for entire City.	Create a statement for the Mayor to read at Council meetings rather than him reading the entire proclamation
Fax voicemail messages to Mayor or call and discuss urgent messages. Respond to citizens as directed by Mayor	Participation in "Frontline Security" efforts



Assist Council Members with the preparation of proclamations and certificates of appreciation	Bind Council/RDA Agenda Packets
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Distribute incoming/process outgoing mail for entire City; distribute faxes	Review all Council/RDA staff reports for typos and ensure that all appropriate attachments are included.
Open/distribute council/City Clerk correspondence	Assist other departments with various tasks
Assist with travel arrangements for Mayor and Council for all outside conferences and meetings	
Process, distribute and index Council and Administrative Policies and Procedures	
Greet and direct customers to appropriate City staff member; outside agencies	
Oversee central purchasing of City office supplies.	
Administrator of postage & copy machines.	
<b>CITY MANAGER'S OFFICE</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Serve as administrative head of City government, responsible for managing the organization and implementing Council policy	Broadcast of City Council meetings
Executive Director of Redevelopment Agency	Communications and marketing (including City Visions, Morgan Hill Monthly, City website)
Personnel Officer	"Extra" solid waste diversion activities
Purchasing Agent	Government access TV
Director of Emergency Services	Legislative advocacy
AB 939 reporting and planning	Legislative analysis
Baseline solid waste diversion activities	Organizational audits/studies
Cable franchise administration and customer service	Participation in community-based organizations (i.e., Dayworker Center, Morgan Hill Health Foundation)
Emergency medical service response/paramedic service	Public access TV
Fire suppression	Solid Waste analytical studies
Hazardous materials response	Workplan development and reporting
Household hazardous waste management	
Information technology management	

Solid waste franchise administration and customer service	
Weed abatement	

<b>COMMUNITY DEVELOPMENT – Building Division</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Building plan checking and inspection	Code enforcement (life/safety enforcement is Critical, all other activities are Less Critical)
	Building maintenance, including delivery of janitorial services, preventive maintenance, upgrades to facilities, emergency reports (repairs to keep services from failing are critical, all others less so)
<b>COMMUNITY DEVELOPMENT – Planning Division</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Application processing (requested service for which costs are recovered; 20% increase required 7/1/04)	Long-range planning
Congestion Management (receipt of gas tax funds is conditioned upon participation)	Plan implementation
	Inter-agency program participation (i.e. participation in Coyote Valley Specific Plan, South County Joint Planning Commission, Inter-Regional Partnership)
<b>FINANCE</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Business license billing and payment processing	Requisition processing and issuance of low dollar purchase orders
Utility billing and payment processing	Identifying addresses for out-of-town property owners so they can receive <i>City Visions</i>
Other billing and payment processing	Taking credit card payments over telephone
Risk management claim monitoring, review of contracts and other documents, and management	Monthly City and RDA financial and investment reports
Accounts payable, including requisition processing and issuance of high dollar purchase orders	Comprehensive annual financial report
Payroll	Mandated cost claims
Bank deposits	Performance measure tracking and compilation
City budget preparation, coordination, and management	Special projects and research projects
Information technology support	General accounting support to other departments
General accounting journal duties and monthly journal entries	New grant application management and monitoring
Bank reconciliation	

Maintenance of accounting systems	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Maintenance of assessment bond and revenue bond information	
Maintenance of existing grants databases and claims	
Investing City dollars to maximize safety, liquidity, and return (in that order)	
Quarterly City Investment Reports	
Strategic financial planning and projections	
Annual financial statements for City, RDA, and Corporation Yard	
Mandated federal, state, county, and other reports for: <ul style="list-style-type: none"> <li>• Annual bond issue continuing disclosure</li> <li>• Annual Street report</li> <li>• Annual Proposition 172 public safety report</li> <li>• Annual reports of financial transactions for City, RDA, and Wastewater Facilities Financing Corporation</li> <li>• Quarterly Income tax, payroll, sales tax, fuel tax, and underground tank fee returns</li> <li>• Annual Development Impact Fee Report</li> <li>• Annual Statement of Indebtedness for Redevelopment Agency</li> </ul>	
Analysis, reporting, proposed changes, and implementation related to water, sewer, development processing, development impact, and other fees	
<b>HUMAN RESOURCES</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Contract Negotiations (not necessary until early spring 2005)	Enhanced Training Opportunities
Rewrite and adopt new Personnel Rules (must be done in 2004)	Getting data base up to speed (will make HR paperwork processing much faster and more efficient)
Safety programs and training	Various employee events/programs
Benefit Administration	Educational incentive pay requalification

Workers Compensation administration (may consider effectiveness of outsourcing)	Re-do Performance Evaluation Process
Employee relations and discipline	Website maintenance
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Organizational Development/ Structure/ Morale	Temporary and seasonal employee processing
Recruitment & selection	Employee newsletter
Personnel records & file maintenance	
Department of Transportation Program (required drug testing program for drivers of Class A vehicles)	
Process Personnel Action Forms making changes to employee status	
<b>POLICE DEPARTMENT – PATROL</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Timely completion of investigations	Non-injury traffic collisions
Injury accidents	Traffic Complaints
Hazardous traffic complainants	Alarms/chronic
Alarm calls/not chronic	Missing persons/chronic
Missing person at risk	Barking dog calls/loose dog calls/animal complaints
Vicious animals at large	Cold property crimes
Crimes in progress	Property crimes/noise complaints
Crimes against persons	Monthly articles for <i>City Visions</i>
Mandatory reporting i.e. child/elder abuse, D.V. cases	911 abandoned calls (i.e., pay phone/commercial)
Family/neighbor disturbances	
Suspicious person/vehicle calls	
911 hang-up from a residence	
<b>POLICE DEPARTMENT – Special Operations</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Investigative Review and follow-up felony crimes against persons.	Investigative review and follow-up to misdemeanor property crimes
24-hour call out response to critical incidents e.g., rape robbery, homicides	Permit approval services e.g., massage, taxi cab and various others
School resource officers dedicated to all crime occurring on Jr. High and High School campuses in the City	Special events review and approval for public safety issues
SWAT response to hazardous and critical incidents	Participation in county-wide narcotic and auto theft task forces
Public Information to media and local press	Crime prevention and neighborhood watch

Internal affairs investigation review	
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<b>POLICE DEPARTMENT – Support Services</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
911 calls for services	Processing reports for warrant or closed/suspended
Processing in custody reports	DUI Cost recovery
Processing reports with court dates	False alarm cost recovery
Subpoena, citation and warrant processing	Press board/ Daily Activity Log
CJIC bookings; pre-bookings	Background checks
Bail	Clearance letters
Registrants	Animal licensing
Property/evidence processing	Stray animal calls/ barking dogs
Processing CHP tow forms	Pawn slips, DROS slips
UCR reporting	Calls for service inquiries
Repossessions	Bike licenses
Juvenile record sealing	Report copy requests
Management of information technology services	Filing
DA complaint returns	Maintain emergency listing cards
Response to PW calls	Take lost/found animal reports
Matron duties	Evidence/ property purge; warrant purge; records purged for marijuana charges
Vehicle releases	Assist with traffic control
DA requests for 911 tapes; DA complaint returns	Attend county wide committee meetings
Maintenance of online criminal justice-related reporting	
Crime lab run; vehicle shuttles	
Citation sign offs	
Station tours; walk-ins at front counter	
Kennel maintenance	
Found property reports	
Responding to animal calls for service; Transport animals to Humane Society	
Transcription of major cases	
<b>PUBLIC WORKS – Engineering Division</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Prepare CIP budget and present to Planning Commission and City Council	Facilitate Bicycle and Trails Advisory Committee (BTAC) meetings, prepare agendas and minutes

Plan and design budgeted CIP projects	Organize and facilitate ground breaking and ribbon cutting ceremonies for CIP projects
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Prepare bid packages and follow bidding procedure per California Contract Code	Engineering representative located at City Hall for 4 hours per day
Administer construction projects	Prepare articles for <i>City Visions</i>
Provide inspection for CIP projects	Water Conservation program (depending on time of year and drought conditions)
Issue encroachment permits	Live response for every call received (calls could be routed directly to each staff person's desk)
Provide technical and development guidance to developers and engineers	Loan Animal Traps
Attend Development Review Committee meetings; provide timely plan checks	
Provide construction inspection	
Provide traffic engineering services	
Provide up-to-date fee estimate sheets, agreements, and all related development documents	
Provide engineering guidance, when necessary, to development projects under construction	
Storm Water Quality program	
FEMA support (update maps, provide flood information, process flood elevation certifications, manage flood insurance rate program, etc.)	
Receptionist to greet the public	
Make timely payment to consultants, vendors, and contractors	
Sell bid documents and track plan holders list	
Collect fees from Developers and permittees	
Process purchase orders and agreements in a timely manner	
<b>PUBLIC WORKS – Maintenance Division - Parks</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Turf Mowing of Parks, Sports Fields and Civic Center Grounds	Downtown Weekly Cleaning
Turf Maintenance: Aeration, Fertilization, and Broad Leaf Control	Downtown Irrigation Maintenance/Repair
Irrigation System Maintenance/ Repair	Special Event Review/approval/assistance



Vegetation Management: Weed abatement, Shrubbery and ground cover	Seasonal BBQ Cleaning/Reservation Posting
Rodent control	Volunteer Project Assistance
Restroom Maintenance	Integrated Pest Management
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Vehicle/Equipment Maintenance	
<b>PUBLIC WORKS – Maintenance Division - Streets</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Pothole Repair	Special Event Permit Review/approval/assistance
Permanent Asphalt Roadway Patching/Repair	Integrated Pest Management
Arterial Median Maintenance	Volunteer Project Assistance
Concrete Sidewalk, Curb and Gutter Repair	Shopping Cart Pick up
Street sign repair/replacement	
Street Sweeping	
Storm Drain Maintenance/cleaning	
Street light Maintenance/repair	
Traffic Signal Maintenance/repair	
Street Tree Trimming	
Vehicle/Equipment Maintenance	
Street/sidewalk claim review	
<b>PUBLIC WORKS – Maintenance Division – Landscape and Lighting District</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Turf mowing	Trash pickup
Turf maintenance	
Irrigation System Maintenance/repair	
Vegetation/ Groundcover trimming	
Weed abatement	
Rodent control	
Play Equipment Maintenance/repair	
Tree trimming	
<b>PUBLIC WORKS – Utilities – Water</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Water Quality Assurance Testing/Reporting	Landscaping around water facilities
Water Distribution pipeline maintenance/repair	Raising or establishing blow-offs at dead end water mains
Water Well & Pump station Maintenance/Repair	
Backflow Testing/Reporting	
Water Quality Complaints/Investigations	
Water Reservoir Maintenance	

Water Distribution System Training	
Water Distribution System SCADA Maintenance/repair	
Vehicle/Equipment Maintenance	

<b>PUBLIC WORKS – Utilities – Water Meters</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Meter Reading	Fire Hydrant Maintenance/painting
Water Meter replacement/repair/testing	Install Radio Read units
New Account Service	
Customer Complaints	
Vehicle/Equipment Maintenance	
Valve exercising	
<b>PUBLIC WORKS – Utilities – Sewer</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Lift Station Maintenance/repair	Landscaping around Sewer facilities
Sewer Collection System Maintenance/repair	
Sewer System complaints/investigations	
Sewer Collection System Training	
Sewer Collection System SCADA Maintenance/repair	
Vehicle/equipment Maintenance	
Video Inspection of problem areas	
<b>RECREATION AND COMMUNITY SERVICES</b>	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Policies, procedures and process development for the Division and facilities	Staff support to committees such as YES, YAC
CIP support, management, client	Lock-down service in the evenings at the CCC (cost \$6k/yr)
Staff support to Parks and Recreation Commission and library Commission	Summer Concert Series
Library Bond Grant application	Children's holiday and Halloween parties
Monthly report with account tracking	Revise operating hours of the CCC
Preparing for operations of aquatic Center	After school program at Village Avante and Willows (subsidized)
Implementation of Parks, Facilities and Recreation Programming Master Plan	Park and sport field reservations
Conceptual design development of Sports Complex	Participation in community special events (Float in Independence Day parade, hometown Holidays, Brewfest at the CCC, Taste of MH)
Operate the Community Center and Playhouse	Box-office role for ticketed events at the Center
Marketing of facilities and programs	Outside organizational support (Rotary, Kiwanis)
Customer service: counter assistance and event assistance	

Summer playground program, birthday party packages	
<b><i>Critical Services</i></b>	<b><i>Less Critical Services</i></b>
Facility reservations and rentals	
Incorporate senior services now being contracted to the YMCA (\$75k)	
Volunteer services	
Processing of community special event permits	
Youth scholarships	
Art Ala Carte	
Cultural Dance Show	